Schroder . . .

Continued from page 1

special dispensation from the Federal Reserve Board.

The $21 million Naess & Thomas Special Fund, which stands high in the mutual fund performance rankings, is registered with the Securities and Exchange Commission as an open-end investment company under the Investment Company Act.

But it is open-end with a cork in one end. It buys back any shares presented to it for redemption by shareholders, after a 1% back-end commission. And it makes a continuous offering of shares to non-U.S. citizens or residents, with no front-end load.

However, it does not offer shares continuously in the U.S. And that, the fund claims, qualifies it as a closed-end investment company for purposes of the Fed's Regulation Y, which specifies what nonbanking activities a bank holding company can get into.

One of the permitted activities is acting as investment adviser to an investment company, including a mutual fund. But at the time it added this amendment to Regulation Y in 1972, the Fed imposed a number of limitations to conform to the Glass-Steagall Act.

"In the board's opinion," an interpretive release said, "the Glass-Steagall Act provisions, as interpreted by the U.S. Supreme Court, forbid a bank holding company to sponsor, organize, or control a mutual fund.

"However, the board does not believe that such restrictions apply to closed-end investment companies as long as such companies are not primarily or frequently engaged in the issuance, sale, and distribution of securities."

In fact, this is the first offering of shares by the Naess & Thomas Special Fund since Schroders Inc., the British-controlled bank holding company, acquired the investment counseling firm of Naess & Thomas on Jan. 31, 1969. Management of the fund came with the deal.

The Fund's History

Like other mutual funds launched by investment counselors for the convenience of their customers, Naess & Thomas founded the fund on Dec. 21, 1959, so its clients could participate in special situations.

"When we started this fund, we did not intend to go into mutual funds as a business," says Mark W. Harriman, vice president of Schroder Capital Management.

"Funds were quite popular at the time. But our business was almost entirely wealthy individuals. We wanted a way for them to invest in growth situations. One way that was feasible was a mutual fund."

Typically, 5% to 10% of an account invested in high-quality stocks would go into the avowedly risky special fund.

It performed so well, Mr. Harriman says, that Naess & Thomas took it public in 1968 with an advertising campaign. But with the Schroder acquisition in 1969, the fund was closed again to U.S. investors.

Counseling and fund management were carried on in the Naess & Thomas Division of Schroders Inc. until the end of 1980 when the holding company transferred the business to Schroder Capital Management, which now has investment discretion for some $1.4 billion in assets.

These include the $123.4 million Cheapside Dollar Fund, a noload equity mutual fund registered with the SEC but available only to non-U.S. investors. It is named after the street in the City of London where Schroders Public Limited Co., the parent of Schroders Inc., is located.

Schroder Capital Management furnishes no investment advice to J. Henry Schroder Bank & Trust, the nation's 212th largest trust institution at the end of 1981, with $328.4 million discretionary assets.

"We are totally separate from the bank," says James R. Hocking, president of the firm.

"We have our own board, our own capital, our own budget. We could not be more independent."

The prospectus notes that the bank as of last April held 17.6% of the fund's shares through a nominee, which seems to violate the guidelines the Fed laid down in its 1972 interpretive release. That bars bank holding companies and their subsidiaries from buying the shares of any investment company for which they act as investment advisers.

But Mr. Hocking says the nominee holdings are "for foreign beneficial owners whose interest in the fund originated abroad."

Similarly, the Fed interpretive release forbids a bank holding company affiliate to distribute shares, prospectuses, or sales literature of such a fund. "The fund distributes its own shares," Mr. Hocking says.

And the Fed guidelines say a bank holding company "should not act as investment adviser to a mutual fund which has offices in any building which is likely to be identified in the public's mind with the bank holding company."

The Naess & Thomas Special Fund is located in lower Manhattan at One State Street Plaza, which carries the title "Schroder Building" over the main entrance.

But Mr. Hocking says the Fed interpretive release, in mentioning a mutual fund, refers to an investment company continually offering its shares. "The fund should be looked at as a closedend company because it is not continually offering its shares," he adds.

Capacity to Run Hundreds of Millions

Whether closed or open, the Naess & Thomas Special Fund enjoys the excellent investment performance that recently has characterized the mutual funds and bank collective funds that emphasize small emerging growth companies.

In 1982, the fund had a total return of 35.89% to rank 75th among the 526 mutual funds surveyed by Lipper Analytical Distributors Inc. For the last five years, its total return was 172.51% to rank 79th.

This is markedly better than the Standard & Poor's 500 common stock index which had a total return, with dividends reinvested, of 21.57% for 1982 and 93.62% for the five years.

City Federal Savings & Loan Association, the New Jersey thrift, was the big winner in the portfolio in 1982, and the biggest position at yearend. It is followed in size by Payco Pharmaceutical, Sensormatic Electronics, PHH Group, and Base Ten Systems.

The fund's shareholders are mostly individuals in the U.S., but they include a few institutions. "And we'd be happy to have more," says Mr. Hocking.

Through net redemptions, the shares outstanding shrank from 590,460 to 317,315 between 1972 and 1980. But they were back up to 426,006 at the fiscal year end last Sept. 30, when the fund's net assets totaled $16 million.

Schroder Capital Management feels it can manage much more than that for the fund. Hence, the share offering.

"The corporation is set up to identify and research for hundreds of millions," Mr. Hocking says. "We just know we could run $200 or $300 million." ■

Reed . . .

Continued from page 2

ty of primary importance. It is a business which will continue to change in dramatic ways, and it will continue to be important to our corporate activities. The only thing that is constant in this business is the customer."

Savings as Investments

A second factor has to do with savings, said Mr. Reed. "Consumers have decided that savings are more than merely spending less than you earn; savings are also viewed as an investment."

This change in thinking means that consumers will continue to expect to be paid market value on their savings money, said Mr. Reed.

Under the present branch setup, Mr. Reed said the cost of serving a customer is about $150 to $175 per year. But by giving the customer access to the bank through a plastic card, the cost is cut to about $20 a year.

"The beauty of plastic," Mr. Reed said, "is that in addition to cost it personalizes the relationship with our customer. For $20 a year, we can know our custoners, and through the use of phones and direct mail we will also enter their homes.

"There will be a set of interactive services from banking, insurance, and other areas such as shopping and travel services which will all be home delivered in one package."

The cost will be very high initially, and communications will be a real problem because "our telephone system was not designed to handle anything like the upcoming financial revolution," he said.

"Whatever distribution system we at Citibank may use, and there will be many to choose among, this revolution is going to happen. And when it does, all distinctions between various financial institutions will be blurred.

"We will all end up in the distribution business," Mr. Reed predicted. "And we will have to be ready with a whole new line of products to sell, so we will also be in the product business, putting together packages containing products that facilitate transactions, investments, including brokerage, insurance, and so forth."

The future, Mr. Reed summed up, will depend on the managerial game — we will need the human element to pull it all off. ■

Sherman, Ill., BHC

CHICAGO — The Federal Reserve Bank of Chicago has approved the application of Sherman Banc Shares Inc., Sherman, Ill., to become a bank holding company by acquiring Sherman Community Bank. ■

Top Earnings . . .

Continued from page 3

to $84.3 million, to drop out of the listing of the 10 largest earners altogether. Currently, American Banker has received earnings reports from 20 of the 25 largest earners in 1981, and Continental Illinois' income was lower than 17 of these institutions.

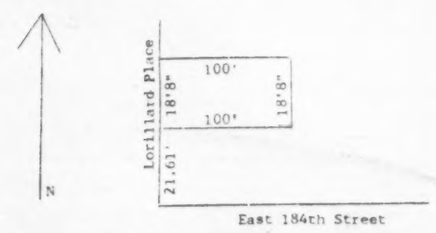
The table above lists the 10 banks with the highest earnings in 1982, followed by the top 10 earners during the fourth quarter of 1982. All 1981 data are as reported in 1982 and have not been restated for mergers, acquisitions or changes in accounting practice.

—L. Michael Cacace

LEGAL ADVERTISING

Notice of Foreclosure

SUPREME COURT - COUNTY OF BRONX Ninth Federal Savings and Loan Association, Plaintiff against Carlos L. Torres, et al Defendant(s) Pursuant to a judgment of foreclosure and sale, entered herein and dated December 23rd, 1982, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezannine, on the 16th day of February, 1983, at 10:00 A.M., premises with diagram, briefly described as follows: On the east side of Lorillard Place, 21.61 feet north of East 184th Street, being a plot 100 feet by 18 feet 8 inches and known as 2344 Lorillard Place, Bronx, N.Y.



Approximate amount of lien $27,224.42 with interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 15148/82 Dated: January 24th, 1983. Morris Schwalb, Referee, Philip Irwin Aaron Attorney(s) for Plaintiff, 400 Jericho Turnpike, Jericho, N.Y. 11753.

Partnership Notice

Substance of Certificate of Limited Partnership filed in New York County Clerk's office 12/20/82 duly executed, of DICOM COMMUNICATIONS, c/o Intrecom Television, Inc., 135 E. 71st St., N.Y., N.Y. Business: create, develop and promote projects in broadcast communications. Term: 12/20/82 to 12/31/92 unless sooner terminated. General Partner (GP): Intrecom Television, Inc., 135 E. 71 St. N.Y., N.Y. Limited Partners (LPs): George Gimpel, 25 Hilltop Dr. West, Great Neck, N.Y., Allan Greenblatt, 3161 So. Ocean Dr., Hallendale, Fla., each contribute $50,000 cash, each share in 5% profits. No additional contributions agreed or required to be made by LPs. LPs contributions returned upon dissolution or termination per Agreement. LPs may sell, transfer, assign, pledge or otherwise dispose of all or any part of his interest in Partnership upon written notice to all Partners. GP does not have right to admit additional LPs without prior consent of all Partners. No priority among LPs as to contributions or compensation by way of income. Upon death, retirement, insanity or dissolution of a GP, all of remaining Partners may elect to continue Partnership business with surviving GPs or Substituted GPs. No LP has right to demand and receive property other than cash in return for his contribution.

Foundation Notice

NOTICE
The annual report of **THE MOSTAZAFAN FOUNDATION** for the fiscal year ended March 31, 1982 is available at its principal office located at 24 W. 40th Street, 6th floor, New York, New York 10018 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Manoucher Shafie.

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Making Do in a Depressed Auto Town

McClellan of Bank of Wisconsin Says Janesville Is Down but Not Out

By JOHN MORRIS

JANESVILLE, Wis. — Recession fell with a vengeance on this quiet Wisconsin city, wresting jobs from one out of every five workers.

At 19.8%, unemployment here ranks among the worst in the nation. That means 5,000 of Janesville's 51,000 residents no longer have work.

"The city is down, but not out," insists Rowland J. McClellan, chairman and president of the area's biggest bank, the $124 million-deposit Bank of Wisconsin, and its $180 million-asset BancWis Corp. holding company.

And the bank? Many things there are not even down, much less out. While Mr. McClellan wears a long face when discussing the bank's environment, his countenance cheers up noticeably when he talks about the bank itself.

Profits are up for 1982. And, curiously enough, so are savings accounts, paying a measly 5¼%, as well as consumer loans — at least for November and December.

But on the debit side, the ups include the number of delinquencies on commercial and consumer loans and foreclosures on real estate.

Several factors have combined to help the bank weather the apparent depression that surrounds it. Some stem from the foresight of Mr. McClellan and his staff, and others from the United Auto Workers union.

Janesville's major employer is General Motors, where the UAW won terms that, when coupled with extended unemployment benefits, can bring a laid-off worker's income up to 90% of his previous take-home pay.

Other auto-related firms in the city gave similar benefits. So no job has not necessarily meant no money. Thus the Bank of Wisconsin has not suffered devastating mortgage

➤➤ Janesville: Page 2

MMDAs Spark Deposit Surge In Connecticut

Top 100 Mutuals Show Big Shifts in Rank

By L. MICHAEL CACACE

NEW YORK — The savings banks of Connecticut — sparked by a surge of fresh money coming into the new money market deposit accounts introduced last December — experienced a significantly higher growth in deposits last year than the savings banks of any other state.

This is one of the major findings of the American Banker's annual survey of the top 100 savings banks published today.

Thrifts Harvest New-Account Inflows, Page 2

Fourteen Connecticut savings banks ranked among the nation's top 100 at yearend. Their deposits, adjusted for mergers, rose by $1 billion, or 11%, over the year just ended.

In comparison, the deposits of the 49 New York savings banks in the top 100 and the 13 Massachusetts savings banks in this group each grew by approximately 1.8% after merger activity is accounted for.

The major reason for the extraordinary growth of the new account in Connecticut is that interest earned in an MMDA account there is not subject to state taxes — while dividends earned from a money market mutual fund are taxable. Many of Connecticut's savings banks had campaigns advertising this feature. And the residents of Connecticut, who have the second highest per capita income in the

➤➤ Savings Banks: Page 23

Georgia Bank to Staff Store Facilities

Near Full Services Planned in 35 Kroger Supermarkets

CHICAGO — A small bank in metropolitan Atlanta plans to open staffed facilities in 35 Kroger Co. grocery stores in the next two years.

The $70 million-deposit Heritage Bank of Gwinnett County, Georgia, will open its first facility on Feb. 14. Two more will follow at 30-day intervals in the Atlanta area, said executive vice president Reggie Cox.

Each one will offer an almost complete range of banking services, with the exception of closing loans. They will, however, take loan applications, as well as offer full checking services. In addition, space will be leased to insurance and travel companies, as it is in Heritage Bank's eight full-service branches.

Heritage also plans to have a fully automated check authorization service on line in its in-store automated teller machines by April 1.

Mr. Cox said Heritage calls itself a financial management center rather than a bank, and thus offers many peripheral services and products such as discount brokerage.

➤➤ Kroger: Page 24

Dime, Emigrant Talk Merger, Then Back Off

By KAREN SLATER

NEW YORK — Two of New York City's largest savings banks have been discussing a merger that would create the second largest mutual in the country. But those talks have now been put on hold, due to uncertainty about how much financial assistance the Federal Deposit Insurance Corp. might be willing to provide.

The banks are the $5.5 billion-deposit Dime Savings Bank of New York and the $2.8 billion-deposit Emigrant Savings Bank.

Dime is the third largest savings bank in the United States and the largest in New York City. If it merged with the

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The Top 100 Savings Banks

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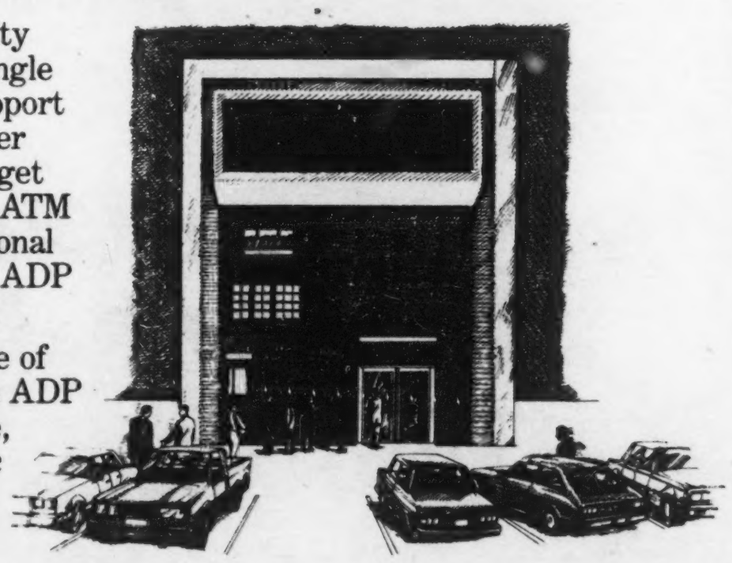

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The Top 100 Savings Banks

Savings Banks Do Have a Future

With Strategic Planning and Regulatory Changes, Mutuals Should Survive

By JOHN W. STONE
Vice President, Lyons, Zomback & Ostrowski,
New York, N.Y.

Except for the brief respite in interest rates in the summer of 1980, optimism in virtually any context has not been heard nor read in the financial press in discussing the plight of the thrift industry during the past 36 months. With the passage of the Garn-St Germain Depository Institutions Act of 1982 and the substantial decline in interest rates since July 1982, mutuals, while remaining handicapped to some degree compared to their commercial bank competitors, are more likely prepared and equipped than generally perceived, not only in surviving but also prospering within the immediate and long-term future.

In viewing the mutuals side by side with their competitors both within and outside the banking industry, their inherent attributes cannot be overlooked:

• Mutuals enjoy a long established large consumer base; however, until recent legislative relief, they have been extremely limited in their ability to expand their "relationships" with that base. On December 31, 1981, 448 mutual savings banks had approximately 37 million deposit accounts (Source: National Association of Mutual Savings Banks). The potential for expanding their position as a "first instance" provider of mortgage and deposit services to other product areas is tremendous.

• Over their many years of existence mutuals have built extensive branching systems. In 1981 the 448 mutuals had a total of 3,693 offices (more than eight per institution), while the 3,359 commercial banks in the same states had 18,606 offices, or five plus per institution (NAMSB). The banking system's success in repatriating consumers from money market funds will be largely dependent on providing convenient access in addition to aggressively marketing yields and the advantage of insurance coverage.

"Subquality" Loans Less Than Banks

• Mutuals enter 1983 without the qualitative problems of their commercial bank competitors. As of June 30, 1982 mutuals reported "subquality" loans (past due loans, non-accrual loans, plus other real estate owned) of 2.97% of their total portfolios, down from 3.00% in December, 1981 (Source: Lyons, Zomback & Ostrowski, Inc. mutual savings bank data base.) Comparable data is not as yet publicly reported for all commercial banks; however, national banks at December 1981, reported an average of 4.41% of total loans as either past due or in nonaccrual status (not including other real estate), up from an average of 4.21% at the end of 1989.

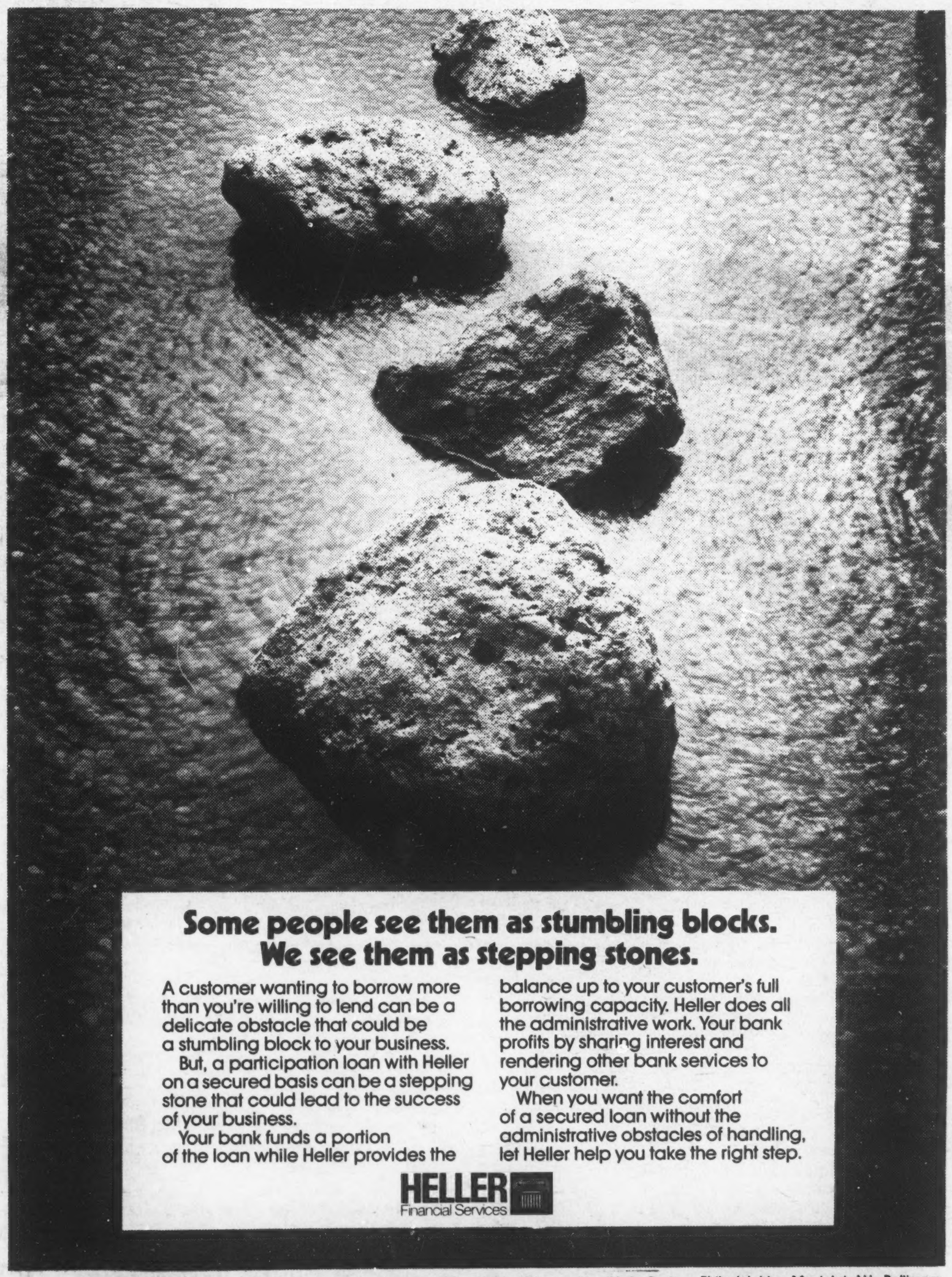
• Mutuals may well have already suffered the brunt of its reintermediation of deposit accounts compared with its commercial bank competitors. In 1978 approximately 50% of the mutuals' asset bases were supported by passbook and statement savings accounts; as of June 30, 1982 only 30% of assets were so represented. Likewise, due to previous restrictions on mutuals, less than 2% of their assets as of December 31, 1981 were represented by demand deposits, compared to 18-28% in commercial banks (LZO data base and FDIC Uniform Bank Performance Reports).

• Mutuals, while beset with long-term fixed-rate low yielding real estate loan portfolios, receive substantial cash flows from those portfolios and are now beginning to again enjoy the higher historical prepayment levels not realized during the recent higher interest rate periods of the past three years.

Additionally, consumers, who are now more investors than they are the traditional depositors of the past, are likewise beginning to adjust to the realization that they now will have to assume the risk of future interest rate swings as the availability of fixed rate mortgages is continuing to decline rapidly. Mutuals, given sufficient funding, can meet the "pent-up" demand as well as future housing needs inasmuch as only one variance has been added to their traditional roles as mortgage lenders: variable pricing.

Operate on Lower Margins

• Because of the nature of their "ownership," mutuals can operate on lower margins than their commercial counterparts, who must provide returns satisfactory to their stockholders. Mutuals, however, now enjoy the option of conversion to stockholder-owned institutions both to replenish their depleted net worth positions and to have the capability of tapping the capital markets for future needs. There have been successes by pioneers in this movement who experienced over-sub-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